FISCAL NOTE

Bill #: **SB0519**

Title: **Eliminate most tax incentives**

Primary Sponsor: **Mack Cole**

Status: **As introduced**

Sponsor signature Date

Dave Lewis, Budget Director Date

Fiscal Summary

	FY2000 Difference	FY2001 Difference
Expenditures:		
General Fund	$12,000	$0
Revenue:		
General Fund	1,201,949	1,649,611
State Special Revenue	13,582	42,550
Net Impact on General Fund Balance:	**$1,189,949**	**$1,649,611**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
	X	Included in the Executive Budget	X		Significant Long-Term Impacts

Fiscal Analysis

ASSUMPTIONS:

Tax Credits/Deductions

1. This bill would take effect on January 1, 1999.
2. The proposal eliminates several current law tax credits and eliminates three tax exempt savings accounts beginning in tax year 1999. The table on the following page shows the tax credits and savings account deductions being repealed, and the estimated impacts for fiscal years 2000 and 2001.
3. This bill would also repeal the small business deduction for contributions to its independent liability fund (15-30-127), the small business deduction for the donation of computer equipment to schools (15-30-126), the deduction for contributions to child abuse and neglect prevention programs (15-30-156), the deduction for contributions to the Montana Drug Abuse and Resistance Education Program (15-30-159) and the deduction for purchasing Montana produced organic fertilizer (15-32-301). The impact from all of these would be minimal.

MCA	Corporation License Tax Credit Description	FY2000 Tax Expenditure	FY2001 Tax Expenditure
15-31-123	Investment Tax Credit	$ 30,000	$ 20,000
15-31-132	Disability Insurance for Uninsured Credit	5,400	5,400
15-31-135	College Contribution Credit	8,500	9,000
15-31-137	Alternative Fuel Motor Vehicle Conversion Credit	10,000	10,000
15-32-107	Interest Differential Credit	19,000	10,000
15-32-602	Recycling Credit	91,500	91,500
15-32-609	Tax Deduction for Purchase of Recycled Material	175,000	175,000
	Total Corporation License Tax Credits	**$ 339,400**	**$ 320,900**

MCA	Individual Income Tax Credit Description	Tax Expenditure	Tax Expenditure
15-30-129	Credit for Disability Insurance	$ 20,000	$ 20,000
15-30-162	Investment Tax Credit	70,000	40,000
15-30-163	Credit for Contribution to Unversity or College	110,000	110,000
15-30-164	Credit for Alternative Fuel Motor Vehicle Convers.	6,700	6,700
15-30-180	Credit for Preservation of Historic Building	unknown	unknown
15-32-109	Credit for Energy Conserving Investments	120,000	120,000
15-32-115	Credit for Geothermal Systems	50,000	40,000
15-32-201	Credit for Alternative Energy Systems	0	0
15-32-402	Wind Energy Producers' Credit	4,800	4,800
15-32-601	Credit for Recycling	100,000	100,000
	Total Individual Income Tax Credits	**$ 481,500**	**$ 441,500**

MCA	Tax Exempt Savings Account Description		
15-61-202	Medical Care Savings Account	$ 70,000	$ 70,000
15-63-102	First-Time Home Buyer's Savings Account	95,000	142,500
15-62-204	Family Education Savings Program	1,000	1,000
	Total Amount of Tax Exempt Savings Accounts	**$ 166,000**	**$ 213,500**
	Total All Credits	**$ 986,900**	**$ 975,900**

4. In FY2000, corporation license tax collections would increase by $339,400 and individual income tax collections would increase by $647,500 ($481,500 from repealed credits + $166,000 from eliminating tax exempt saving accounts) for a total increase in general fund collections of $986,900. In FY2001, corporation license tax collections would increase by $320,900 and individual income tax collections would increase by $655,000 ($441,500 from repealed credits + $213,500 from phasing out tax exempt saving accounts) for a total increase in general fund collections of $975,900.

Property Tax Impacts

5. The proposal repeals sections MCA, 15-24-1401 and 1402. These sections provide a local-option property tax abatement for “new and expanding industry”.

6. Under current law, the total tax expenditure associated with this abatement is $2,500,000 in fiscal years 2000 and 2001.
7. Under the current abatement, 84% of all property receiving the abatement is business equipment, while the remaining 16% is real property. Under current law, approximately 38% of the business equipment receiving the abatement is personal property not liened to real property, and pays property taxes in the spring of each year.
8. Property taxes on property receiving this abatement are distributed 26.95% to the state general fund; 1.70% to the university systems; 18.76% to county governments; 3.64% to cities and towns; and 48.95% to local school districts.
9. The FY2000 impact from the property tax provisions of this proposal is to increase property taxes received by taxing jurisdictions by a total of $798,000 ($2,500,000 X 0.84 X 0.38 = $798,000) distributed $215,049 to the state general fund; $13,582 to the university system; $149,728 to county governments; $29,026 to cities and towns; and $390,615 to local school districts.
10. The FY2001 impact from the property tax provisions of this proposal is to increase property taxes by $2,500,000 distributed $673,711 to the state general fund; $42,550 to the university system; $469,072 to county governments; $90,935 to cities and towns; and $1,223,732 to local school districts.

Administrative Impacts

11. The administrative costs associated with this bill would be approximately $12,000 (200 hours X $60/hr) from eliminating individual income tax credits and the three tax exempt savings accounts from the individual income tax form. Because this bill goes into effect for tax years after December 30, 1998, the first year the form would be changed would be 1999. These changes would be made in the fall of 1999 and thus affect FY2000 only. The impact from repealing the corporation income tax credits would be minimal.

FISCAL IMPACT:	FY2000 Difference	FY2001 Difference
Expenditures:		
Personal Services	$12,000	$0
Funding:		
General Fund (01)	$12,000	$0
Revenues:		
General Fund	$1,201,949	$1,649,611
State Special Revenue	13,582	42,550
Net Impact to Fund Balance (Revenue minus Expenditure):		
General Fund (01)	**$1,189,949**	**$1,649,611**
State Special Revenue (02)	$13,582	$42,550

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

Due to eliminating the local-option property tax incentive for new and expanding industries, property tax revenue in FY2000 would increase $149,728 for county governments; $29,026 for cities and towns; and

$390,615 for local schools. Revenue in FY2001 would increase $469,072 for county governments; $90,935 for cities and towns; and $1,223,732 for local schools.

LONG-RANGE IMPACTS:
The property tax revenue increases to local governments would continue in future years.

TECHNICAL NOTES:
Department of Commerce/Economic Development Division:
1. The Department of Commerce is currently bound by a court order in an action it took against Glacier Springs Capital Company. The Department is obligated by Cause No: BDV-96-1318, dated January 27, 1999, in the Montana Eighth Judicial District Court, to implement a settlement agreement between Glacier Springs Capital Company and the Departments of Revenue and Commerce. Therefore, the funding authority required to administer the agreement needs to be maintained in order to comply with the court ordered settlement over the next biennium.
2. There are no new tax credits available for capital companies in Montana. There would be no financial impact to the state from tax credits if the Capital Companies Act is repealed.
3. The Departments of Commerce and Revenue are currently required to oversee and monitor the activities of Glacier Venture Capital Company, and the Montana Small Business Investment Capital Company, pursuant to the Capital Company Act. Repealing the act will essentially remove all oversight of the Glacier Venture Capital Company as currently required by to the Capital Company Act. Glacier Venture has already received $750,000 in tax credits for its investors. There are no new tax credits available under the current statute.